

Message Text

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14-11
ACTION SS-25

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FM AMEMBASSY ATHENS
TO SECSTATE WASHDC 7776
INFO AMEMBASSY BRUSSELS

C O N F I D E N T I A L ATHENS 1846

EXDIS

E.O. 11652: GDS
TAGS: EGEN, EFIN, GR
SUBJECT: FLOATING THE DRACHMA

REF: (A) ATHENS 1501; (B) ATHENS 1278

BRUSSELS FOR AMBASSADOR KUBISCH

1. DURING COURSE AMBASSADOR'S MARCH 5 LUNCHEON WITH MINISTER COORDINATION AND PLANNING PAPALIGOURAS, MINISTER INTRODUCED SUBJECT OF THE FORTHCOMING "FLOTATION" OF THE DRACHMA. HE STATED THAT ZOLOTAS' ROME "DAILY AMERICAN" INTERVIEW (REF B) HAD BEEN DELIBERATE LEAK TO ACCLIMATIZE GREEKS TO CONCEPT, AND TO PROVIDE OPPORTUNITY TO GAUGE PUBLIC REACTION BEFORE ANY FINAL DECISION TAKEN.

2. FORMULA FOR BASKET WILL BE VERY COMPLICATED AND A WELL-KEPT SECRET. BANK OF GREECE WILL CHANGE COMPONENT CURRENCIES AND WEIGHTS FROM TIME TO TIME IF RESULTS NOT SATISFACTORY. PAPALIGOURAS INTENDS MAKE CLEAR ON FLOOR OF PARLIAMENT THAT DOLLAR TO BE INCLUDED IN BASKET, AND THAT NEW SYSTEM OF VALUING DRACHMA NOT A "MOVEMENT TOWARDS INDEPENDENCE."

3. HE STRONGLY EMPHASIZED THAT CHANGES IN VALUE OF DRACHMA AT FIRST WILL BE INFINITESIMAL. OVER TIME, AS COMMUNITY BECOMES ACCUSTOMED TO SYSTEM, GOG WILL HAVE FLEXIBILITY
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THROUGH ITS CLOSELY MANAGED FLOAT TO GRADUALLY ADJUST VALUE

OF DRACHMA, AS CIRCUMSTANCES DICTATE. IN AN INTERESTING FOOTNOTE, PAPALIGOURAS REVEALED THAT IMF OFFICIALS HAD ENCOURAGED ZOLOTAS AND PAPALIGOURAS TO DEVALUE DRACHMA LAST FALL, BUT THEY REJECTED ADVICE ON GROUNDS THAT TIMING WOULD HAVE BEEN INAPPROPRIATE.

4. PAPALIGOURAS INDICATED THAT SHIFT TO "FLOAT" WILL BE MADE VERY SOON, POSSIBLY FRIDAY, MARCH 7.

5. COMMENT: IMMEDIATE PURPOSE OF PEGGING DRACHMA TO BASKET IS TO ACHIEVE STABILITY AND CONTINUITY IN DRACHMA'S RELATIONSHIP TO CURRENCIES OF GREECE'S PRINCIPAL TRADING PARTNERS. SHIFT OF DRACHMA PEG FROM DOLLAR TO BASKET WITH CONTROL REGULATIONS INTENDED BY GOG WILL ALSO AFFORD GREEK GOVERNMENT FLEXIBILITY ADJUST GREEK TRADE FLOWS AS POLICY REQUIREMENTS DEMAND.
STEARNS

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